university students in Milwaukee and in Cleveland. The general aim was to ascertain what constituted "satisfactory service."

Sometimes a little special pleading creeps in. There is much of this in the chapter on Competing Forms of Transportation, and especially in connection with the "jitneys." After proving that the jitneys are bad economically for the public as well as their operators, and giving no hint of a reason for their persistence and multiplication, the chapter ends with a eulogy of the relatively greater merits of the street cars.

While most of the book is general, Part V, which deals with Regulation and the Cost of Service, is special. It contains a full history of the Cleveland Experiment and of the Milwaukee Experiment, but set forth in a way to illustrate the principles involved. It may be that this part of the book is colored by the attitude of mind of the author, though if so it is not apparent.

The book is especially rich in materials for a study of the methods of cost accounting. Statistical methods are very cleverly and effectively used. In this respect the chapters on Traffic Characteristics, Traffic Survey, Traffic Observation, Application of Traffic Data, and the Paying Haul are among the best, but there are others that are good.

The book seems to have been hurriedly thrown together. The English, although the meaning is usually clear, is not always well chosen. On the very first page, there are listed as "costs" items of interest called "returns." Some of the tables lack the necessary legends for interpretation, the table on page 11 lacking any indication as to what the figures stand for. One can guess that they are percentages, but one has to guess again what they are percentages of. Also, we find material introduced that is not strictly pertinent. Thus, on pages 50 and 51 are charts showing the fluctuations in the average of hourly wages, without any hint that labor "costs" may fluctuate very differently. Yet these are little things. It is certain that every economist with any interest in this field at all must have this book where he can consult it.

Carl C. Plehn.

University of California.

Railway Monopoly and Rate Regulation. By Robert James McFall. Columbia University Studies in History, Economics and Public Law, Vol. LXIX, No. 1. (New York: Longmans, Green and Company. 1916. Pp. 223. $2.00.)

The chief work of railroad economists in the past has been in

the analysis of economic problems and in the criticism of railroad abuses. This work has been important. But even more vitally important is the work of construction. This monograph by Dr. McFall is of value because of its constructive suggestions and because of the admirable spirit in which it is written.

At the very outset he gets at the heart of the railroad problem. In his introduction he says:

> It is not in the long run so much a matter of a just return being allowed to the railways as it is a matter of giving them sufficient income to provide accommodations for the commerce of the country, particularly when the business is constantly increasing.

It is impossible in this brief review to give an adequate synopsis. The author's main thesis may be thus summarized. The effectiveness of a transportation system is determined by the expansion of traffic. This expansion may be hampered in two ways: by excessive rates and by inadequate facilities. Because railroads are monopolies there must be some effective means of controlling rates, for high rates restrict transportation. It is equally important, however, that the railroads should provide adequate facilities and in order that such facilities may be provided it is essential that the net returns to the railroads should be sufficient to attract capital.

The value of the analysis lies in the importance which the author attaches to the latter suggestion. He appreciates, as few writers do, the vast amount of money which must be raised in order that our railroad systems may adequately serve the public. Regulation must, therefore, be helpful and encouraging.

Dr. McFall, apparently, is not enthusiastic over the valuation of railroads now being conducted by the Interstate Commerce Commission, but he accepts it and points out a way in which it may be useful. In the first place, he believes that railroads should be allowed the value of donated lands and the value of improvements made out of earnings. He makes a conclusive answer to the cry raised by shippers that they should not be called upon to pay rates based upon investments of surplus earnings:

> If we refuse to allow this surplus of the past to be counted in the valuation we would be taking from present owners of railway securities what past owners filched from past patrons and we would be returning this, in the shape of capital goods to be used without charge, to the present patrons of the railways who never paid anything to this surplus.

He would not allow the multiple in his land value but thinks that the railroads will be amply compensated if allowed the un-

earned increment. In other words he follows the principle laid down by the Supreme Court in determining the present value.

Having thus determined a fair value, which will be liberal enough to attract new capital, he proceeds to lay down the principle that having wiped clean the slate we now proceed to add to this valuation the investments made from time to time. The impracticability of basing rates from year to year on the existing valuation is obvious. And yet, if the valuation theory is logically carried out rates will depend upon conditions which have no relevancy to transportation needs. For instance, if unit costs, ten years from now, should be double what they are today a revaluation would be necessary, and an illogical and uncalled-for adjustment of rates would have to be made.

Dr. McFall's theory is sensible. The railroads ought to be satisfied with such a basis. No other interest would attack it. For any revaluation would undoubtedly greatly increase the present valuation.

His discussion of rates of return is equally admirable. We are rapidly getting away from the conception that a public utility is entitled only to a fixed maximum profit. Such a theory places a premium upon inefficiency and discourages enterprise. It ought not to be applied even to local utilities. It can not be applied to transportation lines, for if a maximum rate of return is fixed for a line which is prosperous and well located, and rates are adjusted to give only this maximum return, other lines compelled to adopt such a rate basis may become bankrupt. This results in inadequate railroad facilities and the restriction of traffic.

If the actual investment in the future is to be the increment added to the present valuation, a vista of interesting questions is opened up as to the control which may properly be assumed by governmental authority over the issuance of securities. The author does not discuss this question, but the logic of his analysis leads to the conclusion that the public authorities are concerned only with the amount of money actually expended upon the transportation plant, and not with the price and nature of securities issued, a conclusion which is substantially that reached by the Railroad Securities Commission.

In his last chapter Dr. McFall deals with the regulation of particular rates. He marshals the authorities who regard cost as the essential element in rate making. He seems to be somewhat unduly impressed by the weight of these distinguished authorities

and fails to make an independent analysis of the limitations of the cost principle in rate making. Clinging to his main theory that rates should be so adjusted as to produce the greatest amount of transportation, he emphasizes the necessity of relative high rates on articles of high value while rates on articles of low value should be low in order that such articles may move freely. There is nothing new in this analysis. It is the way rates are made today by the rule-of-thumb methods of traffic officials. It is estimated that three fourths of the traffic moves on commodity rates. Such rates are made upon the basis of charging *only* what the traffic will bear. No principle of cost of service or value of the articles enters into the making of these rates. If the distinction between the principles governing competitive and non-competitive rates will be kept always in mind some progress may be made towards the development of rate-making theories.

EDGAR J. RICH.

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